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Private Real Estate Overview

Thomas Toth, CFA, Managing Director
Ali Kazemi, Managing Director

August 2019

BENEFITS OF PRIVATE REAL ESTATE

Private Real Estate provide a number of benefits within a broad portfolio construction:

- Portfolio Diversification
  - Historic correlation to traditional asset classes is relatively low
- Inflation Hedge
  - Inflation is difficult to predict
  - Long-term hedge against high or unexpected inflation
- Risk-Adjusted Returns
  - Attractive risk-adjusted return potential
  - Beta and Alpha Opportunities
- Current and Long-Term Income
  - High income potential, particularly for longer duration investments
  - Dependent on the stage of development of underlying assets

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INVESTMENT CHARACTERISTICS

- Investors should establish expectations regarding the effectiveness of asset classes in meeting their objectives.

	ASSET CLASS	SHORT-TERM CORRELATION TO CPI	LONG-TERM CORRELATION TO CPI	HIGHER YIELD OPPORTUNITY	HIGHER RETURN OPPORTUNITY (BETA)	HIGHER ALPHA OPPORTUNITY	LIQUIDITY
PUBLIC INVESTMENTS	Treasury Inflation Protected Securities (“TIPS”)	X	X				X
	Commodities	X	X			X	X
	Real Estate Investment Trusts (‘REITs”)		X	X		X	X
	Master Limited Partnerships (“MLPs”)		X	X	X	X	X
	Diversified Public RA	X	X	X		X	X
PRIVATE INVESTMENTS	**Private Real Estate**		**X**	**X**	**X**	**X**	
	Timber / Farmland		X		X	X	
	Infrastructure		X	X	X	X	
	Energy (Oil and Gas)		X	X	X	X	
	Diversified Private RA		X	X	X	X	

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CAPITAL MARKET ASSUMPTIONS

	Global Equities	Core Fixed Income	Public Real Estate	Private Core Real Estate	Private Value-Add Real Estate	Private Opportunistic Real Estate	Cash
Return (%)	6.45	3.05	5.05	5.35	7.95	9.35	1.90
Risk (%)	17.05	5.15	17.00	12.00	17.50	25.00	1.25
Yield (%)	2.55	3.30	3.75	3.30	1.65	0.00	1.90

Correlations	Global Equities	Core Fixed Income	Public Real Estate	Private Core Real Estate	Private Value-Add Real Estate	Private Opportunistic Real Estate	Cash
Global Equities	1.00						
Core Fixed Income	0.20	1.00					
Public Real Estate	0.56	0.17	1.00				
Private Core Real Estate	0.53	0.17	0.85	1.00			
Private Value-Add Real Estate	0.48	0.18	0.70	0.85	1.00		
Private Opportunistic Real Estate	0.45	0.19	0.55	0.75	0.90	1.00	
Cash	-0.07	0.19	-0.05	-0.05	-0.05	-0.05	1.00

*Capital market assumptions as of June 2019

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CORRELATION TO INFLATION

- Unlike financial assets, which generally exhibit negative correlation with inflation, real assets display positive correlation with inflation, particularly over longer holding periods.

Source: Wilshire Compass

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PRIVATE REAL ESTATE

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OVERVIEW

PRIMARY OBJECTIVE	STRATEGY	EXPECTED RETURN* (% P.A.)	RETURN COMPONENTS	LIQUIDITY	VOLATILITY/ RISK	TYPICAL LEVERAGE
Income	Core	6% - 10%	70% income 30% appreciation	Moderate	Low	~30%
	Core Plus	9% - 11%	60% income 40% appreciation		Moderate	~50%
Asset Appreciation	Value-Add	10% - 18%	40% income 60% appreciation	Low	High	<65%
	Opportunistic	15% - 20%+	10% income 90% appreciation			> 65%

*Indicative returns are for developed markets and are nominal, leveraged, post fees and pre-tax.

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PRIVATE EXPANDED CORE REAL ESTATE

Private Core Real Estate Equity

- Risk Aversion Following Global Financial Crisis
- Less Volatility Relative to Public Real Estate Markets and Higher Risk, Private Segments (Value-Add and Opportunistic)
- High Demand for Stable Income with Current Yields at 5% - 6%
- Highest and Most Stable Occupancy Rates (>80%)
- Limited Leverage (<40%)

+

Private Value-Add Real Estate Equity

- Manufacture “Core”; Exit Opportunity Supported by Core Market Demand
- Seek Return Through Manager Skill and Operational Expertise
- Less Dependence on Further Cap Rate Compression
- Moderate to High Occupancy Rates (50% - 80%)
- Modest Leverage (<65%)

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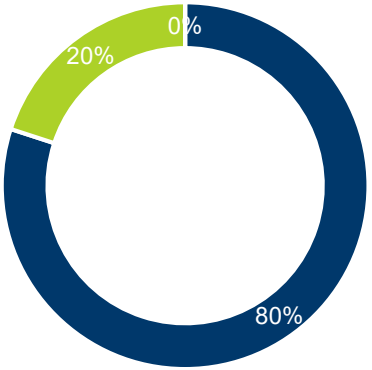
PRIVATE "EXPANDED CORE" REAL ESTATE

- ***By expanding the opportunity set from exclusively "Core" to additional segments of the Private Real Estate space such as Value-Add Equity, investors can enhance expected returns.***

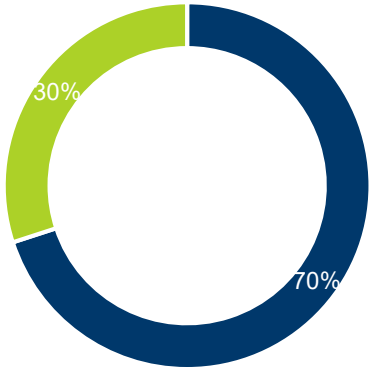
Private Expanded Core Real Estate Strategy (80% Core / 20% Value-Add)



Expanded Core	
Return (%)	5.9
Risk (%)	12.7
Sharpe Ratio	0.4
Yield (%)	3.0

Data reflects Wilshire's Capital Market Assumptions, as shown on Slide 4

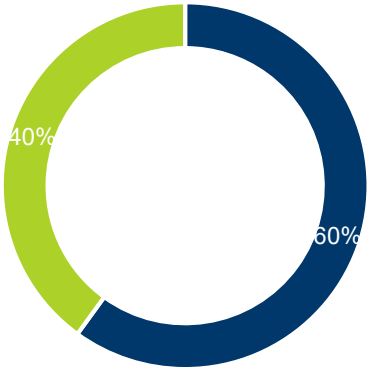
Private Expanded Core Real Estate Strategy (70% Core / 30% Value-Add)



Expanded Core	
Return (%)	6.2
Risk (%)	13.1
Sharpe Ratio	0.4
Yield (%)	2.8

Data reflects Wilshire's Capital Market Assumptions, as shown on Slide 4

Private Expanded Core Real Estate Strategy (60% Core / 40% Value-Add)



Expanded Core	
Return (%)	6.5
Risk (%)	13.7
Sharpe Ratio	0.4
Yield (%)	2.6

Data reflects Wilshire's Capital Market Assumptions, as shown on Slide 4

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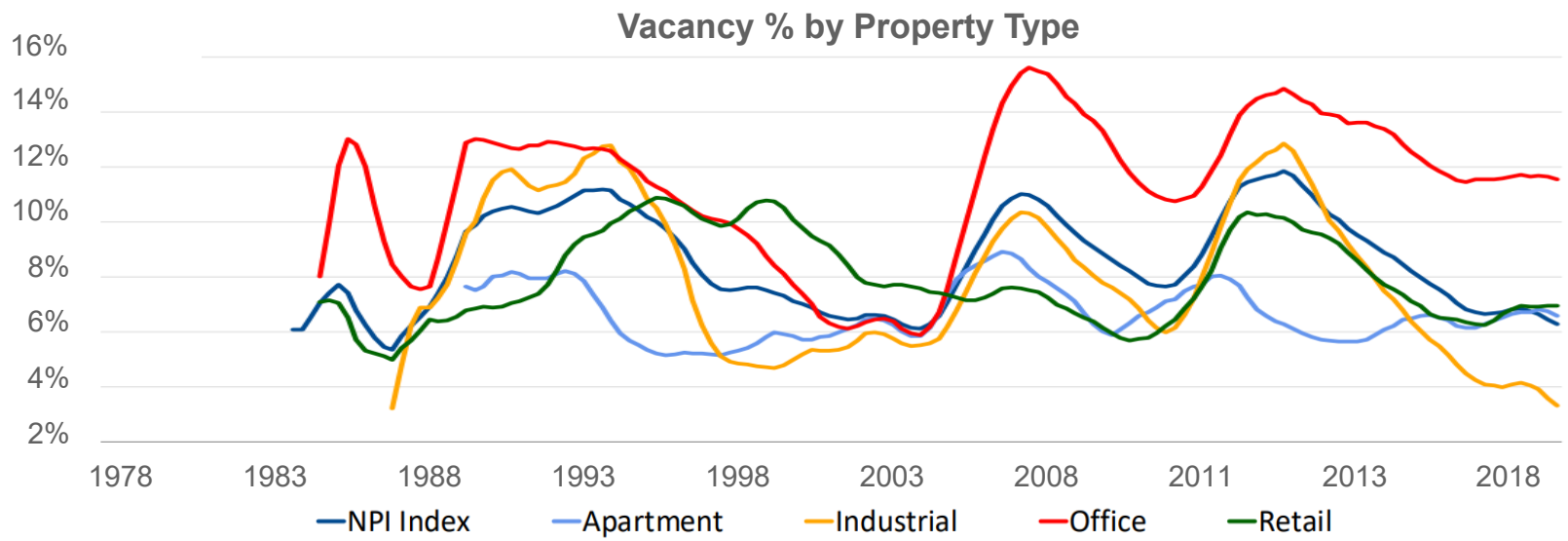
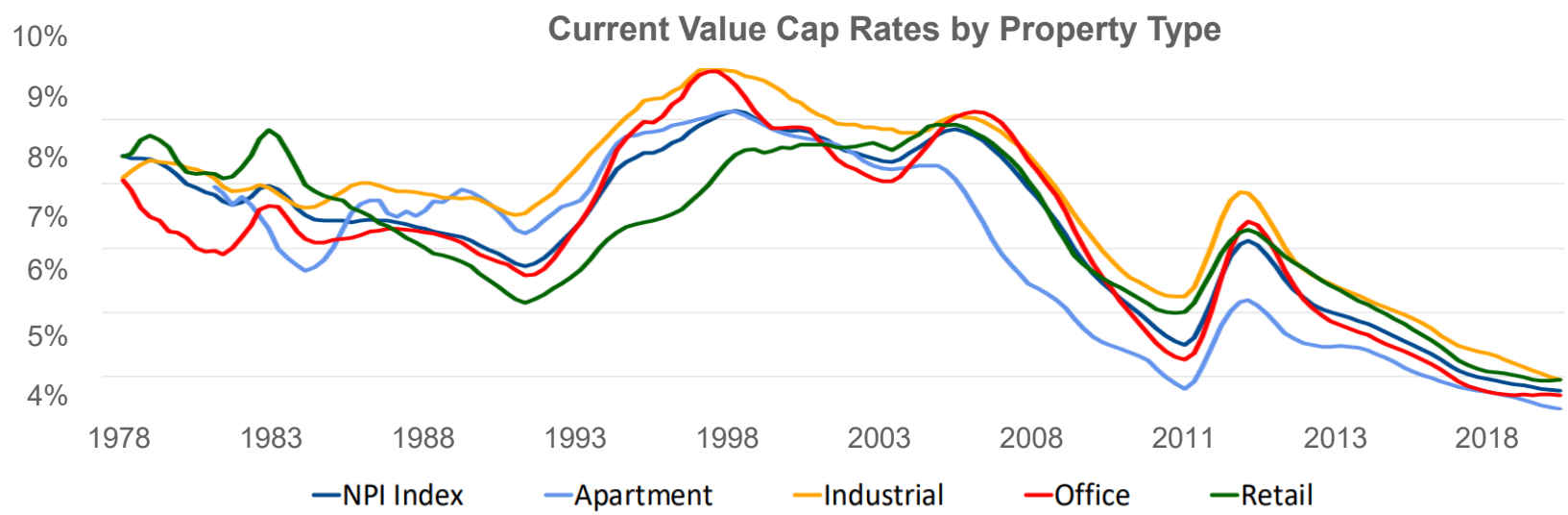
STATE OF THE MARKET





Sources: CoStar, NAREIT 2018; National Council of Real Estate Investment Fiduciaries

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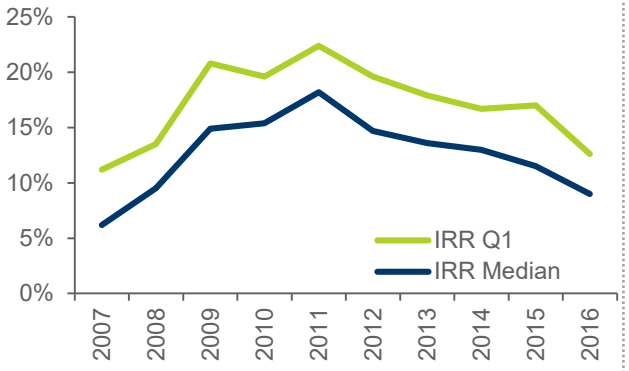
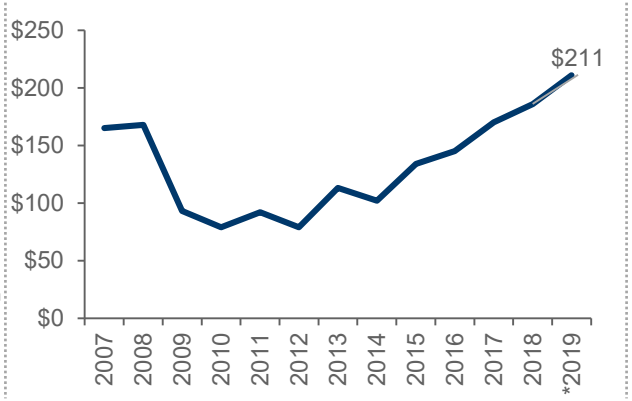
U.S. REAL ESTATE OUTLOOK

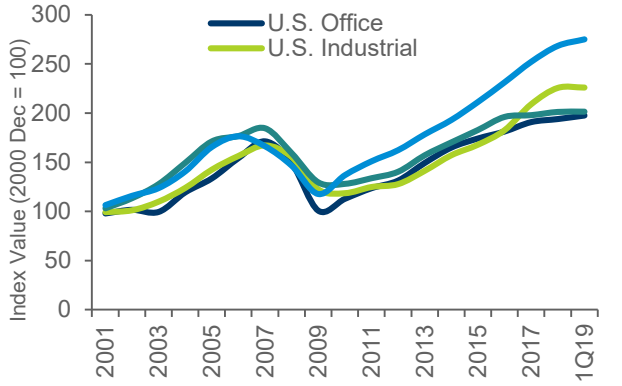
VINTAGE YEAR PERFORMANCE[1]



REAL ESTATE DRY POWDER ($B)[2]



U.S. PROPERTY TYPE PRICING INDICES[3]



REGIONAL INFLUENCES

- \+ Lack of new construction
- \+ Demographic shifts due to growth of millennial population / aging baby boomers
- \+ Strong employment rate
- \+ Tax reform
- ± Maturing U.S. real estate cycle
- \- Steady fundraising is creating increased competition and lowering underwritten returns
- \- Rising interest rates / uncertainty
- \- Increased valuations due to availability of both debt and equity

LOCAL CONSIDERATIONS

- Increased outpatient care creating demand for medical office
- Aging population and increasing college enrollment rates create need for housing accessibility/capabilities
- Less capital/focus on non-gateway cities creating potential for value-added investment
- Positive fundamentals create potential opportunity for RE debt
- Fundamental changes in retail sector creating distressed/niche opportunities

INDUSTRY / SECTOR OUTLOOK

STRATEGY TYPE	INVESTMENT OPPORTUNITY
Core	◔
Core Plus	◑
Value-Added	◑
Opportunistic	◑
Debt	◑

[1] Preqin North America Real Estate benchmark, as of most up-to-date. Note: inadequate number of funds prevents quartile analysis in certain vintage years.
[2] Preqin Real Estate Quarterly Update. Data as of March 31, 2019.
[3] CoStar Commercial Repeat-Sale Indices (CCRSI), CoStar Group. Value weighted data. Data through April 2019.

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CONCLUSION

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Greenwich 2018 U.S. Institutional Market Trends – Key Issues Facing Institutional Investors:

Rate of Return Goals

- Public Pensions: 58%
- Corporate Pensions: 34%
- Endowment & Foundations: 47%

Inflation Risk

- Public Pensions: 4%
- Corporate Pensions: 7%
- Endowment & Foundations: 13%

Wall Street Journal Economic Forecasting Survey – CPI 10-yr forecast for 2018 (as of December 2018)

- High 3.3%
- Average 2.1%
- Low 1.3%

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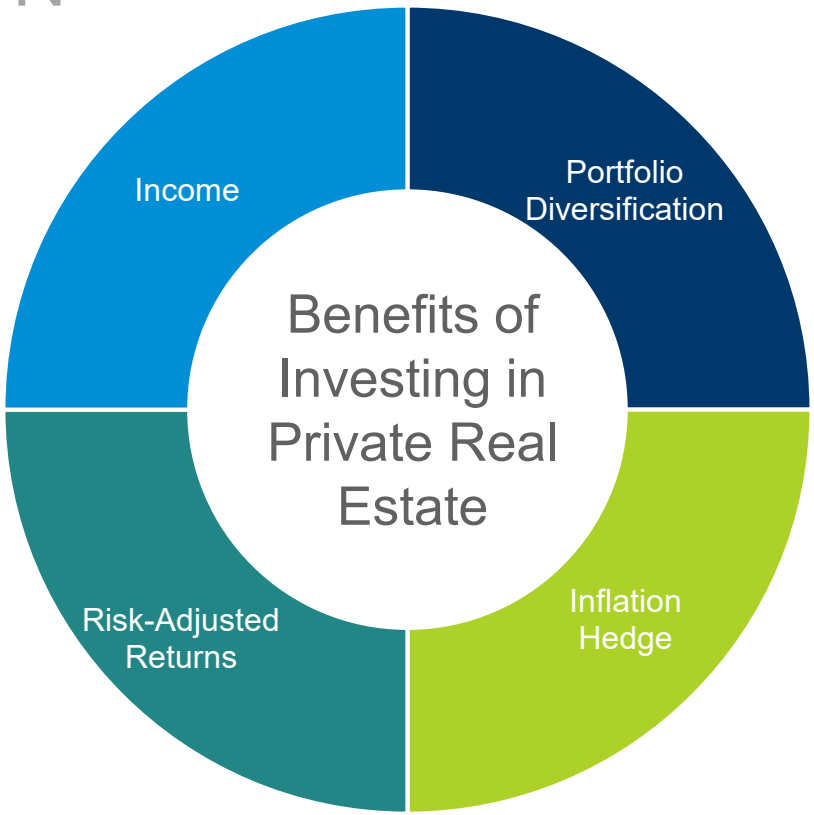
CONCLUSION



Near-term inflation is highly uncertain. Longer-term inflation is even more uncertain.

- Private Real Estate can provide the following benefits:
  - Higher income and risk-adjusted total return, including Beta and Alpha opportunities
  - Insurance against high or unexpected inflation, particularly over the long-term.
- A diversified approach can increase the effectiveness of the real estate portfolio over time.

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